

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** January 23, 2008  
**TO:** Board of Commissioners  
**FROM:** Bruce A. Warner, Executive Director  
**SUBJECT:** Report Number No. 08-10  
Disposition and Development Agreement with Killingsworth Station LLC.

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6553

#### ACTION SUMMARY

This Action will authorize the Executive Director to execute a disposition and development agreement (“DDA”) with Killingsworth Station, LLC for the granting and development of PDC-owned property (Property) at the northeast corner of North Interstate Avenue and North Killingsworth Street in the Interstate Corridor URA.

Resultant development will be as a high-quality, four-story, residential mixed-use, transit-oriented development with approximately 54 unit residential condominiums, approximately 9,200 square feet of ground floor commercial space and significant sustainable building features (collectively, the “Project” or “Killingsworth Station”).

Key aspects of the DDA include:

#### **Programmatic:**

- Construction of 54 units of residential condominiums of which 60% (33 units) will be affordable to families earning 80% and below of area median family income (“MFI”), and 21 units will be available at market rates;
- Construction of approximately 9,200 square feet of active ground floor commercial condominium space targeted to local businesses.

#### **Financial:**

- As described in detail in the Financial Impact section of this report, in addition to granting the property to the developer, PDC will provide TIF funding for the purpose of:
  - Making the project financially feasible as a market rate project;
  - Providing the buy down necessary to make 33 units affordable at 80% MFI;
  - Providing the financial assistance to local businesses with tenant improvement costs associated with the commercial condominium space.

#### **Outreach & PDC Policies:**

- Construction of LEED Silver Project with innovative and eco-friendly design and construction;
- Killingsworth Station, LLC’s, compliance with PDC’s Good Faith Efforts Program and the Workforce Training and Hiring Program;
- Killingsworth Station, LLC’s, commitment to support for the City of Portland’s Minority Homeownership Initiative to promote ownership opportunities at the Project; and
- The Project is subject to the Workforce Diversity Component of PDC’s Construction Wage Policy.

## **PUBLIC BENEFIT**

The Project is anticipated to achieve the following objectives:

- Provides 54 new ownership housing units, 33 of which will be sold at prices affordable to households earning 80% of MFI;
- Activates the ground floor of a major transit node by providing approximately 9,200 square feet of neighborhood serving retail / commercial space;
- Provides wealth creation opportunities to neighborhood residents, local small businesses and entrepreneurs;
- Utilizes innovative green design and construction techniques;
- Provides multiple opportunities for Minority Women and Emerging Small Business (MWESB) participation in the project. Good faith effort to meet and/or exceed the 20% of total Project cost goal for MWESB participation.

### **This action will support the following PDC goals:**

- Develop healthy neighborhoods
- Provide access to quality housing
- Help business to create and sustain quality jobs
- Support a vibrant central city (urban core)
- Contribute to a strong regional economy

## **PUBLIC PARTICIPATION AND FEEDBACK**

In April, 2006, PDC released a second request for proposals (RFP #05-40) for the redevelopment of the Property. In May, 2006 PDC staff established a Selection Advisory Committee ("SAC") that included stakeholders from the Interstate Corridor Urban Renewal Advisory Committee ("ICURAC") and adjacent neighborhood associations, to evaluate the proposals and provide a recommendation on the developer selection. The SAC evaluated the proposals using the evaluation criteria in the RFP. Two community wide open houses were held for stakeholders, SAC members, and project staff to meet the development teams and review the proposals prior to the SAC making a recommendation on the preferred development team.

In August 2006, pursuant to the public participation and selection advisory process, PDC selected Winkler Development Corporation ("WDC"). On August 23, 2006, the Board of Commissioners authorized the Executive Director to enter into exclusive negotiations with WDC for the development and disposition of the Property through Resolution 6386. Killingsworth Station, LLC is a WDC entity. Since that time, PDC staff has met with the ICURAC on two occasions to update it on the status of the Project and to solicit feedback with respect to financial and programmatic changes to the Project. Staff recently held an open house in December, 2007 with WDC and the ICURAC / Overlook Neighborhood Association Board with regards to the updated schematic design for the Project.

## **COMPLIANCE WITH ADOPTED PLANS AND POLICIES**

Redevelopment of the Property at this Interstate transit node supports the following plans and strategies:

*Interstate Corridor Urban Renewal Area Plan (ICURA)*: The adopted ICURA Plan stipulates as a general principle the goal of optimizing light rail investment through the creation of catalytic projects near light rail stations. The plan also supports increasing the number of

ownership opportunities for current and future residents and supporting expanded services, business and employment opportunities.

*Interstate Housing Implementation Strategy:* The Interstate Corridor Urban Renewal Housing Strategy established 6, 20-year goals for housing in the ICURA.

- Goal #1: Preserve and maintain existing sound housing stock
- Goal #2: Increase the total housing stock by at least 4,000 housing units by the Year 2020 to increase the availability of rental and ownership housing opportunities for current and future residents, and to support expanded services, businesses and employment opportunities
- Goal #3: Ensure an adequate supply of housing is available and affordable (costs 30% or less of gross income) to people of all income levels living in the ICURA in the Year 2000
- Goal #4: Ensure housing options for households of different sizes and needs
- Goal #5: Increase opportunities for homeownership, prioritizing opportunities for existing residents
- Goal #6: Increase the housing stability of existing residents and protect them from involuntary displacement caused by gentrification, increases in housing costs and loss of housing choices

*Interstate MAX Station Area Revitalization Strategy:* The strategy identifies the Killingsworth Station site as a key transit-supportive redevelopment site to support the light rail investment.

*Metro's 2040 Growth Concept:* The long-range plan encourages policies that produce compact development, housing for people of all incomes, a balanced transportation system, and a healthy economy that generates jobs and business opportunities.

*PDC Strategic Plan:* Achieves PDC goals of retaining and developing housing and diverse neighborhoods; investing resources in home and business ownership to provide opportunities for wealth creation; revitalizing blighted areas through strategic partnerships and property acquisitions; and implementing a mechanism to ensure that PDC and the public share in the financial success of PDC's investments.

## **FINANCIAL IMPACT**

PDC anticipates participating financially in the Project as follows:

- (1) Provide a predevelopment loan of \$200,000 to Killingsworth Station, LLC, to be repaid at the commencement of construction;
- (2) Provide construction financing (anticipated at \$2,200,000). The construction loan will be repaid from the sales proceeds from the Project.
- (3) Grant the property to the developer subject to the use of the property for the project PDC requires.
- (4) Provide up to \$110,000 in an anticipated permanent construction subsidy.

- (5) Provide permanent funds to buy down 33 units to levels affordable at 80% MFI (anticipated at \$1,050,000).
- (6) Provide permanent funds from Economic Development for tenant improvement financial assistance for buyers of the commercial condominium spaces (anticipated at \$500,000);
- (7) Budget up to \$560,000 for a PDC project contingency reserve.

<b>PDC Permanent Gap Financing</b>	<b>\$ Amount</b>
(4) Construction Subsidy	110,000
(5) Affordability Subsidy	1,050,000
(6) Commercial Assistance	500,000
(7) Project Contingency Reserve	560,000
<b>Total Permanent Gap Financing</b>	<b>2,220,000</b>

PDC will grant the land to the project based on the fair re-use value of the property as determined by an appraisal as noted below. In sum, the total PDC project subsidy equals the permanent gap financing (approximately \$2,220,000) plus the market value the land (approximately \$1,120,000), for a total of \$3,340,000. It is likely that without PDC's financial support that the property will either remain vacant until the market for ground floor commercial and residential condominiums improves along Interstate Avenue to warrant a similar market-rate project, or the property will develop into a lower density, commercial center.

To date, PDC has expended approximately \$1,100,000 in sunk costs attributable to the acquisition and preparation of the Property as a development ready site. An appraisal conducted in December, 2007, indicated that the market value of the Property was approximately \$1,120,000. The fair re-use valuation, based on an investment analysis that considered the constraints imposed on the Property by PDC through a set development program, valued the Property at zero dollars. In total, PDC costs equal \$3,320,000 which includes both land acquisition sunk costs of \$1,100,000 and project costs of 2,220,000.

## **RISK ASSESSMENT**

There is a risk that the State of Oregon Bureau of Labor & Industries (BOLI) may find that the Project, despite the level of affordability and construction type, is subject to prevailing wage based on the inclusion of the commercial condominiums in the Project. Additional project contingency is included in the budget if BOLI concludes that the Project is so subject to prevailing wage. PDC is seeking a predetermination letter from BOLI concerning the application of prevailing wage to the Project.

There is also the risk of construction cost escalation that could deem the project financially infeasible after a DDA has been signed. These risks are mitigated by having the most up to date value and cost data. Because the sponsor is an experienced developer and the as-built appraisal is only a few weeks old, all steps to reduce this risk have been taken.

Lastly, there is also a potential absorption risk that would be reflected in completed but unsold units. This risk is reduced by the fact that the units will be sold at prices significantly below market prices as supported by the recent appraisal. To further offset a longer than expected absorption period, Killingsworth Station, LLC's profit will be at risk along with sufficient reserves to cover an 18 months unit sales period. Additional mitigation includes

Neighborhood Housing Program down payment assistance loans, the Project's proximity to public transportation, and the LEED Silver designation.

## **WORK LOAD IMPACT**

The Project has been incorporated into corresponding staff work plans.

## **ALTERNATIVE ACTIONS**

The Board could elect not to authorize the DDA, which would retain the Property in PDC's real estate portfolio as a vacant parcel; or the board could direct revisions to the proposed DDA.

## **CONCURRENCE**

The development concept has been reviewed, with no significant objections, by the Bureau of Development Services and the Portland Department of Transportation.

## **BACKGROUND**

In 2003, PDC assembled the 32,000 square foot Killingsworth Station Site at the northeast corner of North Interstate Avenue and North Killingsworth Street in the Interstate Corridor URA for the development of mixed-use, transit oriented housing (the Project). PDC purchased the properties from 2000 to 2003 for a total of \$1,100,000.

In January, 2004, a project development team that included KemperCo, Innovative Housing Inc., and Peninsula Community Development, was selected through a Request for Proposal (RFP #02-21) process. Citing rising construction costs and market risks, the lead developer on the team, KemperCo, withdrew from the project in November, 2005.

In April, 2006, PDC released a second request for proposals (RFP #05-40) for the redevelopment of the Killingsworth Station Site requiring a minimum of 40 ownership housing units and retail space. It also required that at least 35 percent of the units be affordable to households at 100 percent of median family income (MFI) and 15 percent of the units affordable at 80 percent of MFI. The RFP required a mixture of one, two, and three bedroom units with affordable units represented for all unit types.

In August 2006, pursuant to a public participation and selection advisory process that included stakeholders from the Interstate Corridor Urban Renewal Advisory Committee (ICURAC) and adjacent neighborhood associations, PDC selected Winkler Development Corporation (WDC). WDC's original proposal included 42 1-bedroom units, six 2-bedroom units and three 3-bedroom units for a total of 51 units, with 9,227 square feet of ground floor retail. On August 23, 2006, the Board of Commissioners authorized the Executive Director to enter into exclusive negotiations with WDC for the development and disposition of the Killingsworth Station Site through Resolution 6386.

Since that time, Staff worked closely with WDC to conduct detailed due diligence and financial feasibility analysis for the project. On November 14, 2007, the Commission was briefed on the current status of the Killingsworth Station project (Board Report 07-137). At that meeting, staff shared some preliminary conclusions with regards to a forthcoming appraisal's determinations of land value and market sales. The Commission instructed staff

to conduct further financial analysis and due diligence on the project and to return to the Commission with the analysis prior to their consideration of the Killingsworth Station Disposition and Development Agreement (DDA) in early January, 2008. The Commission specifically asked staff to model a more affordable project where 60% of the units would be sold at 80% of Median Family Income (MFI) and below. The Commission also asked staff to review the pricing of the units in order to determine that the average sales price per square foot reflected market conditions.

The analysis conducted resulted in staff recommending: (1) a more affordable project whereby 60% of the units would be sold at 80% of Median Family Income (MFI); and (2) staff increasing the project's contingency budget so as to cover the cost of prevailing wage rates (PWR) should BOLI determine that the Project is subject to PWR requirements.

**ATTACHMENTS:**

- A. URA Fund Summary
- B. Project Summary
- C. Site Map
- D. Project Renderings

**CC:** A. Wilch, Housing Director  
J. Warner, Senior Manager  
M. Collier, Associate Project Coordinator  
M. Baines, General Counsel  
J. Cody, Interim Director of Central Services

**URA FUND SUMMARY**

**370 - Interstate Corridor URA**  
Discussion Draft Budget FY 2008-09

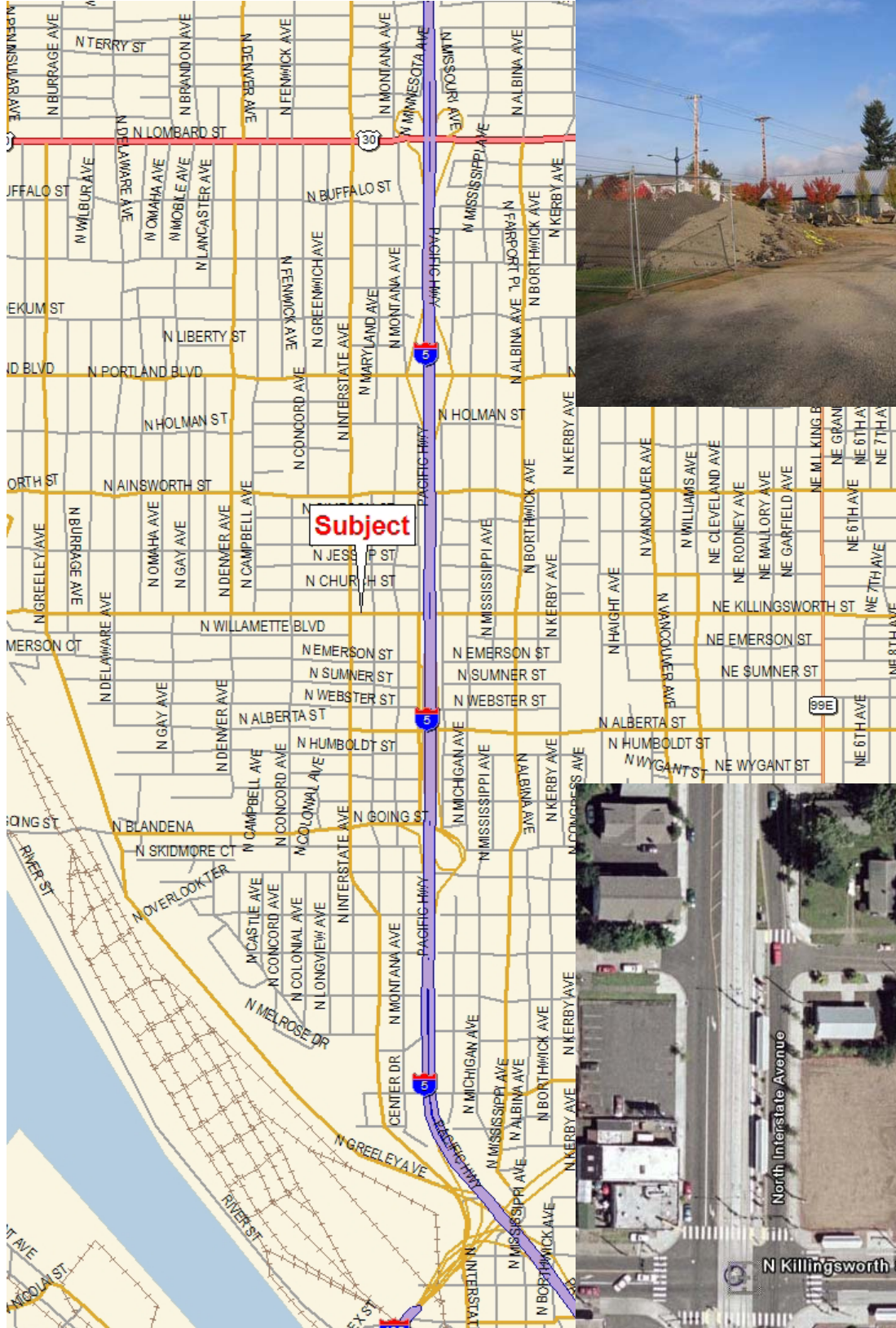
	Current Yr.	Five Year Budget Forecasts and Total					Total
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	
<b>Resources</b>							
<b>Beginning Fund Balance (prior Yr. Contingency)</b>	2,526,736	404,469	21,633	530,719	700,072	1,904,000	<b>3,560,893</b>
Tax Increment Debt Proceeds	13,022,122	19,098,348	13,408,836	13,297,370	10,473,906	9,810,253	<b>66,088,713</b>
Program Income/Other Resources	1,277,729	1,480,240	2,307,549	115,227	113,794	77,495	<b>4,094,305</b>
<b>Total Resources</b>	<b>16,826,588</b>	<b>20,983,057</b>	<b>15,738,018</b>	<b>13,943,316</b>	<b>11,287,772</b>	<b>11,791,748</b>	<b>73,743,911</b>
<b>Requirements</b>							
<b>Development</b>							
19018 - Interstate Redevelopment Opportunity	314,606	366,000	481,000	1,521,000	870,000	870,000	<b>4,108,000</b>
19019 - Interstate DOS Program	271,247	300,000	300,000	300,000	300,000	300,000	<b>1,500,000</b>
19020 - Interstate Streetscape Improvements	2,949,944	2,592,000	2,581,000	300,000	0	800,000	<b>6,273,000</b>
19021 - Interstate Transportation Impr.	190,066	150,000	75,000	75,000	75,000	175,000	<b>550,000</b>
19023 - Interstate Community Livability	300,000	300,000	300,000	300,000	300,000	300,000	<b>1,500,000</b>
19038 - Interstate Parks	1,271,000	440,000	755,000	1,005,000	505,000	505,000	<b>3,210,000</b>
19048 - DT Kenton Redevelopment	25,000	100,000	800,000	1,500,000	700,000	700,000	<b>3,800,000</b>
19049 - Interstate Redevelopment Loan Prog.	400,000	400,000	400,000	400,000	400,000	400,000	<b>2,000,000</b>
<b>Development Total</b>	<b>5,721,863</b>	<b>4,648,000</b>	<b>5,692,000</b>	<b>5,401,000</b>	<b>3,150,000</b>	<b>4,050,000</b>	<b>22,941,000</b>
<b>Economic Development</b>							
19026 - IC Storefront Grants	540,333	400,000	400,000	400,000	400,000	400,000	<b>2,000,000</b>
70019 IC Business Finance	1,725,000	1,350,000	1,385,000	1,850,000	1,750,000	1,750,000	<b>8,085,000</b>
70257 - IC Business Retention & Assistance	80,900	275,000	50,000	0	0	0	<b>325,000</b>
<i>NEW - Killingsworth Block Business Fin Assist.</i>	0	0	465,000	0	0	0	<b>465,000</b>
<b>Economic Development Total</b>	<b>2,346,233</b>	<b>2,025,000</b>	<b>2,300,000</b>	<b>2,250,000</b>	<b>2,150,000</b>	<b>2,150,000</b>	<b>10,875,000</b>
<b>Housing</b>							
19025 - Affordable Rental Housing	200,000	970,000	1,500,000	1,500,000	502,000	502,000	<b>4,974,000</b>
31043 - Interstate Home Repair	455,618	325,000	300,000	300,000	300,000	300,000	<b>1,525,000</b>
33419 - Interstate Homebuyer Assistancess	500,000	450,000	450,000	450,000	450,000	450,000	<b>2,250,000</b>
33431 - Affordable Homeownership Development	801,577	500,000	500,000	500,000	500,000	500,000	<b>2,500,000</b>
34606 - Killingsworth Block	215,000	3,545,852	1,442,587	0	0	0	<b>4,988,439</b>
34612 - Crown Motel Aff. Rental Housing	1,000,000	3,470,000	0	0	0	0	<b>3,470,000</b>
<i>34613 - Shaver Green Aff. Rental Hsg</i>	1,451,556	648,444	0	0	0	0	<b>648,444</b>
37919 - Interstate Housing Policy/Planning	31,902	0	0	0	0	0	<b>0</b>
37928 - Vanport Phase II Housing	79,255	0	0	0	0	0	<b>0</b>
<i>37930 - HAP Scattered Site Aff. Home Ownership</i>	0	200,000	200,000	0	0	0	<b>400,000</b>
<b>Housing Total</b>	<b>4,734,908</b>	<b>10,109,296</b>	<b>4,392,587</b>	<b>2,750,000</b>	<b>1,752,000</b>	<b>1,752,000</b>	<b>20,755,883</b>
<b>Other Direct Expenses</b>							
<b>Central Services</b>	17,655	18,537	19,464	20,438	21,459	22,532	<b>102,430</b>
<b>Other Direct Expenses Total</b>	<b>17,655</b>	<b>18,537</b>	<b>19,464</b>	<b>20,438</b>	<b>21,459</b>	<b>22,532</b>	<b>102,430</b>
<b>Total Direct Expenditures</b>	<b>12,820,659</b>	<b>16,800,833</b>	<b>12,404,051</b>	<b>10,421,438</b>	<b>7,073,459</b>	<b>7,974,532</b>	<b>54,674,313</b>
<b>Fund Expenditures</b>							
Total Direct Expenditures	12,820,659	16,800,833	12,404,051	10,421,438	7,073,459	7,974,532	<b>54,674,313</b>
Personal Services Costs	940,832	998,207	942,640	945,948	895,621	921,564	<b>4,703,980</b>
Operating Transfers Out	600,000	642,259	0	0	0	0	<b>642,259</b>
Staffing and Administrative (Indirect Costs)	2,060,628	2,520,125	1,860,608	1,875,859	1,414,692	1,674,652	<b>9,345,935</b>
Contingency	404,469	21,633	530,719	700,072	1,904,000	1,221,000	<b>4,377,424</b>
<b>Total Requirements</b>	<b>16,826,588</b>	<b>20,983,057</b>	<b>15,738,018</b>	<b>13,943,317</b>	<b>11,287,772</b>	<b>11,791,748</b>	<b>73,743,911</b>

## **PROJECT SUMMARY**

The Project includes approximately 54 residential condominium units, 48 1-bedroom units, and six 2-bedroom units (the "Project"). Approximately 60% of the Project (33 units) will be affordable to individuals earning no more than 80 percent of MFI. The remaining 21 units will be sold at market rates. Approximately 9,227 square feet of ground floor retail space will be marketed as commercial condominiums to promote wealth creation and entrepreneurship opportunities for local and other small business owners. The Project includes approximately 16 one-car garages and approximately 34 on-site surface parking spaces for a total of approximately 50 parking spaces.



**SITE MAP**





PROJECT RENDERINGS

